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Editorial: The Privatization of Work-Related Risk Control

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Abstract: This introduction starts by linking the privatization of work-related risk control to a political context in which social investment policies are prominent. Subsequently, a short overview of different forms of privatization is given. Finally, the different contributions to this special issue are introduced by either relating them to the governance or the consequences of privatization. Based on the contributions to the special issue, it is concluded first that the governance of privatized risk control poses difficult challenges of finding the right balance between public objectives and the involvement of private interests. Secondly, it is concluded that, by excluding or marginalizing the most vulnerable group, the privatization of risk control does not always achieve the equality of opportunities that social investment policies aim for. These risks of exclusion and marginalization seem to be particularly salient when the privatization of social investment policies is embedded in a context of retrenchment or a dualization of the labor market.

Keywords: Governance, privatization, risk control, social investment, work-related risks

1 The theme of this special issue: the privatization of risk control

In this special issue we discuss the changing responsibilities of public and private actors in the control of work-related risks – the temporary or permanent inability to participate in the formal labor market or continue to do so, either because of unemployment, illness, disability, old age or lack of skills or creden-

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tials.¹ During the last few decades, government-centered welfare models have been increasingly complemented or supplanted by novel constellations, which redefine government responsibilities (for example investment in human resources versus social protection), and let private actors share increasing responsibility (among others for occupational disease, incapacity, unemployment or sustained employability). This transition creates new challenges for public and private stakeholders, whose interactions may be strained, contested or have unforeseen consequences.

Two other special issues in particular have already covered some ground with respect to the privatization of work-related risk control. The first issue focuses on the new ways in which services in the context of activation are provided and delivered (Van Berkel/Borghi 2008). It shows that the provision of activation services requires different “technologies” and services logics than the administration of income support systems and that activation aims to make income support conditional upon unemployed people’s conduct, attitudes and efforts regarding labor-market integration. The latter theme is addressed in a special issue about self-responsibilization (Frericks/Höppner 2019). It shows that self-responsibility is not a phenomenon that can be reduced to individual action and that individuals are embedded in an institutional environment and social reality. This special issue builds on the previous ones by expanding the focus on the privatization of work-related risk control in three respects. First, by conceiving activation as belonging to a broader category of social investment policies that aim “to reduce intergenerational poverty and increase social inclusion, by sufficiently equipping people to gain employment and face social risks” (Andersson 2018: 110). Consequently, additional to activation, policies concerning the prevention of occupational disease, provision of private pensions, employee training and allowances for self-employed entrepreneurs are also addressed in this issue analysis. Second, it takes into account that private actors other than citizens who face work-related risks, such as employers, insurers and unions, can also assume responsibilities in controlling these risks. Third, this issue is not limited to analyzing the governance of risk privatization but also includes its outcomes in terms of the protection against risks, the distribution of

¹ This special issue has emanated from a conference that has been organized at the Erasmus University Rotterdam on 26–27 September 2019. The conference was enabled by a Research Excellence Initiative grant awarded by the board of the university for the research program Shifts from welfare to investment states and supported by the research program Dynamics of Inclusive Prosperity. Particularly Chris Reinders Folmer deserves special thanks for his efforts to co-organize this conference.

risks and access to justice. Within this social investment framework, this issue focuses on two major subthemes:

- 1) Governance: in what novel instruments have the changing responsibilities for work-related risk control resulted, for example in terms of enforcement of social policies or insurance of labor market risk? What novel collaborative governance initiatives between public and private actors have emerged?
- 2) Consequences: what consequences do the changing responsibilities entail for stakeholders (e.g., workers at risk, employers, caseworkers)? How do they impact collective welfare and suffering from work-related risks?

In this introduction we will first discuss the context in which the change of responsibilities of public and private actors takes place: the way risk is managed in welfare state programs. We describe a development in which privatization takes off in the context of retrenchment of welfare state programs (during the eighties and nineties of the last century) and gradually becomes a central element in the turn towards social investment. Secondly, we will give a short overview of the different forms of privatization that can be distinguished and of the possible intended and unintended consequences of privatization. Finally, we will introduce the articles in this special issue by either relating them to the governance or the consequences of privatization.

2 Risk control in the welfare state

The welfare state is a system of risk-management. In industrial society unemployment, occupational disability and industrial accidents were increasingly perceived as risks produced by the industrial economy and industrial production processes, and not as a product of individual failure (Schwitters 1991). This fueled a dynamic collectivization of these risks. This dynamic is characterized by a collectivization of social insurance, increasing comprehensiveness of risk protection and an increasing coerciveness of social insurance programs (De Swaan 1988). Social insurance (for unemployment, disability, sickness, healthcare) is based on the actuarial notion of calculable risks. As such, markets can produce social insurance. But these markets are plagued by problems of adverse selection, relating to the exclusion of high-risk categories, for example the elderly or the sick, from social insurance, as well as by free rider problems

that limit the comprehensiveness of social insurance. These problems have caused the state to intervene in social insurance by making insurance to some extent compulsory, in order to create more universal systems of social insurance than markets can produce. The welfare state is thus the product of long-term processes of collectivization of both risks and responsibilities. These processes of collectivization took place within the context of an industrial economy and alongside the evolution of nation states and Fordist firms.

Retrospectively, roughly three phases in the post WWII development of welfare states can be distinguished (Hemerijck 2013). First, the so-called Golden Age, an era of welfare state *expansion*, starting after WWII and ending with the economic crisis of the 1970's. Second, a period of welfare *retrenchment* and economic liberalization from the mid 1970's to the mid 1990's, which gradually developed into a third phase in which *social investment* policies became prominent.

Common in the second phase of retrenchment were a renewed emphasis on gainful employment as the principal channel to achieve citizenship and an attempt to control the unintended and perverse use of welfare programs. To this end traditional social insurance benefits for unemployment, sickness and occupational disability have been lowered in terms of spending as well as in terms of replacement rates. These benefits have also become more conditional. The focus on participation on the labor market also implies that activation was an integral part of retrenchment politics. While activation is associated with upskilling in countries such as Germany and Denmark, in most other countries, in particular the UK, activation is predominantly aimed at expanding the supply of labor for cost effectiveness (Nunn/Morgan 2018).² Whereas the former activation approach places emphasis on matching labor supply with particular levels of skill demand or encouraging both employers and job seekers to increase the skills content of labor demand/supply, the latter approach seeks to encourage all jobseekers to find any and all work immediately. By rephrasing the goal of activation into “sustainable” activation in several policy documents, the EU tacitly acknowledged that increasing participation based on “any job would do” has dominated thus far (Nunn/Morgan 2018). It has also been shown that retrenchment and activation may negatively interact. For instance, it has been shown that, in a context of declining social support, active labor market policies actually decrease the employment chances of disabled persons rather than increas-

² For studies showing that the UK has indeed adopted “thin” activation interventions, see for instance Whitworth (2016) and Carter/Whitworth (2017). For the US, see Handler (2008) and Lens (2008).

ing them (Reinders-Folmer et al. 2020). Privatization has also been an integral part of retrenchment politics. For example, in the Netherlands, the risks of sickness and occupational disability have been privatized towards employers in order to control costs. This is intended to stimulate the prevention of sickness and the activation of sick and disabled employees, because employers in the end have to pay the bill and cannot transfer the costs to the collectivity. In the Netherlands these changes in sickness and disability insurance were successful in controlling take-up and expenses, but they also seem to have generated an extensive unintended consequence that manifests itself in a dualization of the labor market: an increasing percentage of the working population (30–40%) is no longer insured against sickness and occupational disability because they are not working under a fixed contract with an employer or because they are self-employed.

The third phase of welfare state development towards social investment is related to the changing character of social risks in a post-industrial economy. Due to the tertiarization of employment and the massive entry of women into the labor market, different risk profiles have emerged in post-industrial societies. Traditional risks such as unemployment and old age are replaced or complemented by new social risks, which often center on work-life arrangements (Esping-Andersen 1999). Within this approach, Bonoli (2004) defines new social risks as the result of a combined effect of family and labor market events that tend to affect (low-skilled) younger people, families with young children and working women. Bonoli (2004: 4–5) distinguishes the following new social risks: reconciling work and family life, single parenthood, having a frail or elderly relative, possessing low or obsolete skills and insufficient social security coverage. This means that social investment politics is inextricably linked to transformations of the family and the labor market. In a post-industrial welfare state, risk control strategies shift to investing in people's ability to deal with these new risks spanning the life-cycle (Bonoli 2004). Taylor-Gooby defines this *new welfarism* as the notion that

“economic globalization, labour market flexibility, more complex patterns of family life and the dissolution of traditional class structures require a new welfare settlement. Since full employment, redistribution and expensive universal services are no longer seen as feasible, the new welfarism can only justify social spending as investment in human capital and the enhancement of individual opportunities” (Taylor-Gooby 1997: 171).

As said, activation policies have already been developed in the phase of retrenchment, because gainful employment then received renewed emphasis. Social investment policies have gradually been developed in other domains, too

(Hemerijck 2013: 380–388). Child centered social investment focuses on early childhood development and childcare facilities. Human capital investment policies deal primarily with education, the transition from school to work, training on the job and lifelong learning. Flexicurity is another element of social investment strategies. It is a combination of relaxing dismissal protection and at the same developing a higher level of social security for employees in flexible jobs. It is especially directed at the workers in low, semi-skilled and/or temporary jobs and intends to mitigate an increasing labor market segmentation between insiders and outsiders. Policies aimed at reconciling work and family life are a fourth, important part of social investment strategies. Maternity leave, flexible working conditions and the recognition of parttime work are elements of these reconciliation policies. Social investment policies are however not limited to the realm of work and family life. They also spill over in the domain of social services. Personalized and capacitating social services customized to particular social needs, family-circumstances and life courses are developed in reaction to processes of differentiation and individualization that are part and parcel of a post-industrial society and economy.

The up- and downsides of social investment are fiercely debated (Andersson 2018). On the one hand, there is the potential for increased social equity and reduced intergenerational poverty. On the other hand, there are the risks that austerity measures are disguised as social investments and that those categories that are most in need of social investments are least likely to receive them. Several contributions to this issue on the privatization of risk control offer insights that are in support of the critical appraisal of social investment policies.

In her contribution *Distributive consequences of risk privatization: The case of Swedish unemployment insurance*, Lindellee shows that Swedish retail workers are likely to frequently find themselves in unemployment or underemployment, while they hardly profit from complementary income insurance schemes provided by unions, which have expanded rapidly in the last 15 years in response to the retrenchment of public unemployment insurance in Sweden. She argues that, while public unemployment insurance benefit does not fully compensate for the income loss for the majority of workers, the promise of a complementary income insurance scheme seems to be illusory for many individuals as they constantly oscillate between precarious work and benefits, accompanied by the burden of navigating a complex system.

In their study titled *Explaining employer provided training*, Koster and Benda establish that employers are most likely to invest in the training of employees with a permanent contract, with a temporary contract with a possibility of extension, as well as in employees who show organizational citizenship behavior.

This means that the least employable employees face the highest levels of social risks. Not only because employers are least likely to invest in the training of employees with a temporary contract without the possibility of an extension, but also because employees with a temporary contract have fewer opportunities to show organizational citizen behavior.

In *Risk privatization and social investment: self-employment in the United Kingdom*, Caraher and Reuter show that the existing mix of social investment instruments directed at the rapidly growing category of the self-employed without sufficient income in the UK undermines rather than promotes meaningful social investment. It pushes conditionality whilst previous levels of social protection are reduced. This “permanent austerity” approach to welfare emphasizes opportunity rather than outcome, and it privatizes risk instead of providing a more collectivist approach to risk control.

3 Different ways of allocating risks to private actors and possible intended and unintended consequences

The shift towards social investment policies has been accompanied by the allocation of responsibilities to private actors. Privatization can take different forms (Gilbert 2002). It can also take place in different ways, for example through privatization to market actors, devolution towards local government or individualization and personalization of social services.

The privatization to market actors means that risks are decollectivized. This takes place when a formerly collectively shared risk is “given back” to social actors. This is what happened with the sickness risk in the Netherlands: it has been given back towards the employer for the first two years of sickness. Employees still receive a sickness benefit, not from a collective insurance fund, but from their employer, who is legally obliged to pay his or her employees a percentage of their wages during sickness.

Next to the privatization of risks, we can observe privatization of implementation and administration. Private agencies are hired to implement public policy. Privatization is supposed to give room to behavioral incentives that increase efficiency and stimulate individual responsibility.

Privatization of social risks as well as privatization of implementation and administration are, however, not to be equated with a complete withdrawal of public responsibility. The feasibility of markets for social services is limited

because of problems of adverse selection and moral hazard. Adverse selection (“cherry picking”) and moral hazard (unintended program use) by private actors can undermine the public goal of accessibility. This is why governments, when privatizing the implementation of social policies, still regulate these markets intensively by imposing public goals on the private market. For example, by limiting prices or by guaranteeing access to the market (such as the obligation for insurers to accept all those who want an insurance). This is why there is often is speak of “quasi-markets” (Le Grand/Bartlett 1993).

In their article *The role of private insurance in governing work-related risks: a law and economics perspective*, Philipsen and Faure show that the regulation of private markets may also come at a cost. They review how private insurers of occupational accidents and diseases operate in such quasi-markets and whether their control of actuarial risks induce liable employers to take preventive measures, thereby reducing occupational accidents and diseases. Their analysis shows that insurers in the Netherlands and the UK tend to take rather crude control measures, by differentiating premiums between risk categories and capping deductibles rather than monitoring actual behavior and using experience ratings. These measures do not seem to strongly incentivize employers. A broader literature review also suggests that the control strategies of private insurers seldom incentivize employers to optimize prevention. The limited influence of private insurers may, to a large extent, be due to the fact that private insurers operate on a market that is regulated. For instance, insurers may free-ride on the efforts of public regulators to influence the behavior of employers and employees, the costs of collecting information may not outweigh the benefits of being better able to differentiate actuarial risks accurately in systems where public regulators cover the major part of the risks, or legislation may prohibit premium differentiation. This shows that it is challenging to regulate quasi-markets in such a way that the safeguarding of public goals and the stimulation of competition are well-balanced.

Next to privatization of implementation, the devolution of responsibility for social policies has to be mentioned. Devolution implies the shift of responsibilities towards local government, not to private actors. But when we define privatization of risks as a form of delegation, it becomes clear that privatization and devolution are related processes. Privatization implies the shift of responsibilities from central government towards (non-state) actors. Devolution implies the shift of responsibilities from central governments towards local governments. In the implementation of social investment policies, local governments often get more responsibility for implementing and financing these policies. This is inspired by the idea that local governments are better able to collect information

and to evaluate the needs of citizens. This means that social investment policies can profit from devolution, as more information about citizens is needed in order to implement social investment strategies.

However, the article by Tollenaar and Vonk, *Access to justice for vulnerable workers and citizens in public/private governance regimes: lessons from the regulatory welfare state in the Netherlands*, shows that there can also be important downsides to the devolution and privatization of implementation. They show that, in the Netherlands, the mixed public/private governance regimes in social security are complex, legally intricate and difficult to manage. This may operate as an obstacle for individual claimants when they want to protect themselves against decisions or actions of private actors or wish to enforce individual entitlements. Hence, individuals rely heavily on the corrective function exercised by the courts. Paradoxically, policies that create a public/private governance structure are not always geared towards strengthening access to justice for the individual. On the contrary, in the Netherlands, legislative changes and administrative practices purposefully raise the barriers to bringing cases to the independent judiciary when it comes to wage liability for the employer in case of sickness and social support services at the local level.

This brings us to individualization or personalization of social services. While the increasing emphasis on individual capabilities and responsibilities are elementary to social investment policies, they can also have several perverse effects. First, individualization and personalization of social policies can increase the predictability and the visibility of who will be dependent on welfare state support (Cantillon et al. 2003). This can undermine the legitimacy of the welfare state, because social cleavages, for example between higher and lower educated or between different ethnic groups, become more visible and prominent. It can also stimulate feelings of deprivation and exclusion among those dependent on the welfare state. Another perverse effect of the individual responsabilization of social services is related to the unequal distribution of life chances. When the development of personal capabilities and responsibilities becomes important policy goals, the success of the social investment paradigm therefore also depends on the willingness and ability of target groups to make use of the possibilities that are offered by social investment programs. The social investment paradigm can therefore produce unintended and negative consequences when willingness or capability are wanting. The likelihood of these perverse effects to occur also depends on the way these individualized and personalized services are implemented. For example, in activating labor market policies processes of stigmatization, cream skimming and lock-in effects are

produced in the implementation of activating labor market policies and determine the effectiveness of these policies to a high degree (Benda 2019).

The article by Pultz, *Unemployment in the affective economy. Exploring the affective governing of young unemployed people in the Danish welfare state*, rests on the idea that receiving unemployment benefits comes with an affective price and deals with the consequences of the responsabilization of unemployed people. Her research in the “affective economy” of the Danish welfare state shows how this debt becomes visible, as unemployed people often describe feelings of being under suspicion for not doing enough, for not being *motivated* enough. Through an abundance of (pro)activity, they have to prove the suspicion of being lazy wrong, and through managing oneself as an active jobseeker, they earn the right to get money from the state. Prieur et al. (2019) subsequently show that such feelings produce resignation, defeatism, melancholy, shame or a lack of bodily self-confidence and a tendency to avoid attracting attention. The resulting lack of self-confidence makes it difficult for the welfare recipients to profit from the social work or treatment programs offered to them. Their seemingly irrational and “socially unskilled” ways of responding may actually block their transition to education and work.

4 Conclusion

In this introduction the privatization of work-related risk control has been linked to a political context in which social investment policies are prominent. These policies can be regarded as attempts to provide citizens with the tools and opportunities to cope with the uncertainties and challenges posed by current volatile and uncertain labor markets. Based on the contributions to the special issues, it can be concluded first that the governance of privatized risk control poses difficult challenges of finding the right balance between public objectives and the involvement of private interests. This balancing act not only entails finding the optimal regulation of the competition between market actors but also developing institutions that make it possible to hold the government and other actors accountable for the provision of welfare. Secondly, it is concluded that the privatization of risk control not always achieves the equality of opportunities that social investment policies aim for, by excluding or marginalizing the most vulnerable groups. These risks of exclusion and marginalization seem to be particularly salient when the privatization of social investment policies is embedded in a context of retrenchment or a dualization of the labor market.

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